Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Message Text

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PAGE 01 STATE 003453
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C O N F I D E N T I A L STATE 003453

USEEC

FOLLOWING REPEAT ROME 21060 ACTION STATE GENEVA USUN NEW YORK
77 DEC 23.

QUOTE C O N F I D E N T I A L ROME 21068

DEPARTMENT PASS EC CAPITALS

USEEC ALSO FOR EMBASSY

USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

E.O. 11652: GDS
TAGS: ETRD, UNCTAD, OECD, IT
SUBJECT: SUSPENSION OF COMMON FUND NEGOTIATIONS

REF: (A) STATE 293758, (B) ROME 20438, (C) STATE 295700,
(D) STATE 303083

1. MINISTER GIUSEPPE JACOANGELI (MFA OFFICIAL RESPONSIBLE FOR
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PAGE 02 STATE 003453

NORTH-SOUTH ISSUES) CALLED EMBOFF TO MFA TO PRESENT GOI POSITION
ON COMMON FUND NEGOTIATIONS. JOLANDA BRUNETTI OF MFA OFFICE THAT
HANDLES MULTILATERAL ECONOMIC AFFAIRS WAS ALSO PRESENT. JACOANGELI
REFERRED TO EMBOFF'S EARLIER APPROACH (BASED ON REF A AND
REPORTED REF B) IN WHICH EMBOFF INVITED GOI VIEWS ON HOW TO GET
NEGOTIATIONS UNDERWAY AGAIN. JACOANGELI NOTED THAT HE HAD NOT
ATTENDED RECENT COMMON FUND NEGOTIATIONS IN GENEVA (WHERE GOI

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

REPRESENTED BY PERMDEL), BUT HAD LED GOI DEL AT NAIROBI
UNCTAD CONFERENCE.

2. HE THEN SAID GOI WAS WELL DISPOSED TO INTERNATIONAL COMMODITY
AGREEMENTS (ICAS) ON GROUNDS THAT THEY SHOULD BE HELPFUL IN SMOOTHING
PRICE FLUCTUATIONS. THIS WOULD REDUCE NEED FOR ITALIAN INDUSTRIES
TO HOLD LARGE INVENTORIES OF COMMODITIES AT CURRENTLY VERY HIGH
FINANCING COST. IF ICAS HAVE BUFFER STOCKS, HE SAID, THAT WOULD
FURTHER REDUCE NEED FOR NATIONALLY HELD STOCKS. HE CHARACTERIZED
ITALY'S POSITION WITHIN EUROPEAN COMMUNITY (EC) ON THIS SUBJECT
AS MODERATE WHILE UK, EIRE AND FRG WERE CONSERVATIVE AND NETHERLANDS
AND DENMARK WERE LIBERAL.

3. JACOANGELI RECALLED THAT THE MANDATE FOR NEGOTIATIONS ON A
COMMON FUND CALLED FOR IT TO BE CONSIDERED IN THE CONTEXT OF AN
INTEGRATED PROGRAM FOR COMMODITIES (IPC). IN THIS CONTEXT, GOI
BELIEVED THAT COMMON FUND SHOULD BE INVOLVED IN INTEGRATED PROGRAM
AND THAT IT COULD BE IMPORTANT IN FACILITATING THE DEVELOPMENT
OF SUPPLY OF CERTAIN COMMODITIES. HE CITED COCOA AS AN EXAMPLE
OF COMMODITIES THAT NEEDED SUCH ATTENTION.

4. JACOANGELI NOTED THAT SIGNIFICANT PROGRESS HAD BEEN MADE
DURING RECENT NEGOTIATIONS--BOTH SIDES HAD MADE PROPOSALS. GOI
BELIEVED, HOWEVER, THAT FURTHER STEPS NEEDED TO BE TAKEN. HE
SAID SUCH STEPS MIGHT INCLUDE AGREEMENT TO PROPOSE THE
ESTABLISHMENT OF AN "EMBRYO" OR "CATALYST" COMMON FUND WITH A
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PAGE 03 STATE 003453

TOTAL INITIAL CONTRIBUTED CAPITAL OF PERHAPS $100 MILLION.
HE OBSERVED THAT GROUP B HELD THAT A COMMON FUND SHOULD AWAIT
CREATION OF SUFFICIENT NUMBER OF ICAS WHILE GROUP OF 77 SUSPECTED THA
T
DEVELOPED COUNTRIES WOULD SEE TO IT THAT SUFFICIENT NUMBER OF
ICAS WOULD NEVER EXIST. GOI BELIEVED THIS STUMBLING BLOCK COULD
BE OVERCOME BY CREATING SMALL FUND WHICH WOULD AT LEAST SERVE AS
"SYMBOL." JACOANGELI SAID THAT IS POSITION GOI WILL TAKE IN DISCUSSIO
NS
WITHIN EC IN JANUARY AND HE HOPED IT WOULD BE EC POSITION IN
LATER OECD DISCUSSIONS.

5. EMBOFF ASKED WHETHER JACOANGELI'S REMARKS ON IMPORTANCE COMMON
FUND COULD HAVE IN FACILITATING DEVELOPMENT OF COMMODITY SUPPLIES
MEANT GOI FAVORED COMMON FUND INVOLVEMENT IN FINANCING "OTHER
MEASURES." JACOANGELI REPLIED THAT GOI DOES FAVOR COMMON FUND
ROLE IN FINANCING OTHER MEASURES ALTHOUGH FUNDING SHOULD COME OUT OF
PROFITS FROM COMMODITY MARKET OPERATIONS. COMMON FUND'S INITIAL
CAPITAL WOULD NOT BE USED FOR OTHER MEASURES. JACOANGELI DID NOT
FORESEE THAT PROPOSED EMBRYO FUND WOULD FINANCE OTHER MEASURES
FOR SEVERAL YEARS--AT LEAST UNTIL ADEQUATE NUMBER OF SUPPORTING
ICAS HAD BEEN CREATED AND BEGAN TO GENERATE PROFITS.

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

6. EMBOFF SAID ON BASIS U.S. POSITION AT RECENT NEGOTIATING SESSION IN GENEVA THERE WOULD NOT APPEAR TO BE AN IMPLICIT CALL IN UNCTAD RESOLUTION ON COMMON FUND NEGOTIATIONS FOR THE FUND TO ENGAGE IN FINANCING IPC. EMBOFF NOTED THAT IPC ALREADY BEING FINANCED AT LEVEL OF ABOUT $3.0 BILLION FOR 1975-1979 PERIOD BY IBRD AND UNDP (REF C). JACOANGELI GRANTED THAT IPC ALREADY FUNCTIONING AND THAT IBRD AND UNDP WELL SUITED TO ADDRESS LONGER TERM STRUCTURAL PROBLEMS OF VARIOUS COMMODITY MARKETS, BUT COMMON FUND WOULD BE IN BETTER POSITION TO RESPOND TO SHORT TERM NEEDS. HE SAID IT WAS ALMOST UNIVERSALLY ACCEPTED THAT BUFFER STOCKS WERE NOT SUFFICIENT BY THEMSELVES TO MAKE COMMODITY AGREEMENTS WORK WELL. SUPPLEMENTARY MEASURES OFTEN NEEDED TO BE TAKEN QUICKLY. WHEN EMBOFF ASKED FOR EXAMPLES OF SUPPLEMENTARY MEASURES COMMON
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FUND MIGHT FINANCE IN GOI VIEW, JACOANGELI CITED PARTIAL FINANCING OF ERADICATION OF COFFEE TREES AND CONVERSION FROM COFFEE TO SOME TOHER COMMODITY IN TIMES OF COFFEE OVERSUPPLY. LATER HE EXPANDED SUPPLEMENTARY MEASURES FUND MIGHT FINANCE TO INCLUDE RESEARCH IN COMMODITY USES AND THE LIKE--WHICH ORDINARILY WOULD BE CONSIDERED LONG-TERM MEASURES. AT THIS POINT HE SEEMED TO BE CLAIMING FOR THE FUND GREATER FAMILIARITY WITH COMMODITY MARKET ISSUES AND NEEDS IN GENERAL THAN IBRD OR UNDP HAVE.

7. EMBOFF SAID HE WOULD TRANSMIT WHAT JACOANGELI HAD SAID. LATTER ASKED EMBOFF TO STAY IN CLOSE TOUCH ON COMMON FUND MATTERS AS POSITIONS ARE DISCUSSED OVER NEXT FEW MONTHS.

8. EMBOFF USED OCCASION TO REFER TO RECENT MEETING OF INTERNATIONAL BAUXITE ASSOCIATION AND TO STATE USG POLICY ON PRODUCER ONLY COMMODITY ORGANIZATIONS IN ACCORDANCE WITH REF D, PARA 3.

9. COMMENT. JACOANGELI'S PRESENTATION CLEARLY INDICATES THAT GOI IS ABANDONING ITS EARLIER POSTURE OF FOLLOWING THE LEAD OF THE "CONSENSUS" IN THE OECD. FACT THAT JACOANGELI MADE PRESENTATION RATHER THAN MINGAZZINI (CHIEF MFA OFFICE FOR MULTILATERAL ECONOMIC COOPERATION), WHO HAD TEN DAYS EARLIER INDICATED GOI POSITION STILL WITH CONSENSUS (REF D), INDICATED EXTENT OF CHANGE IN GOI POSITION AND POSTURE. EMBASSY NOT AWARE AT THIS TIME OF ANY SPECIAL FACTORS THAT MAY HAVE CONTRIBUTED TO GOI DECISION TO ALTER ITS STAND AND CAN ONLY SPECULATE THAT GOI BELIEVES GROUP B POSITION LIKELY TO "LIBERALIZE" OVER NEXT FEW MONTHS AND, THEREFORE, GOI SEES SOME ADVANTAGE IN TAKING "ADVANCED" POSITION. EMBASSY WILL PROBE IN MFA AND OTHER MINISTRIES, ESPECIALLY TREASURY, TO CHECK ON EXTENT OF GOI COMMITMENT TO POSITION OUTLINED BY JACOANGELI AND ON RATIONALE FOR SHIFT. GARDNER
UNQUOTE CHRISTOPHER

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EO Systematic Review
20 Mar 2014
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